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Misrepresentation in Railroad Affairs

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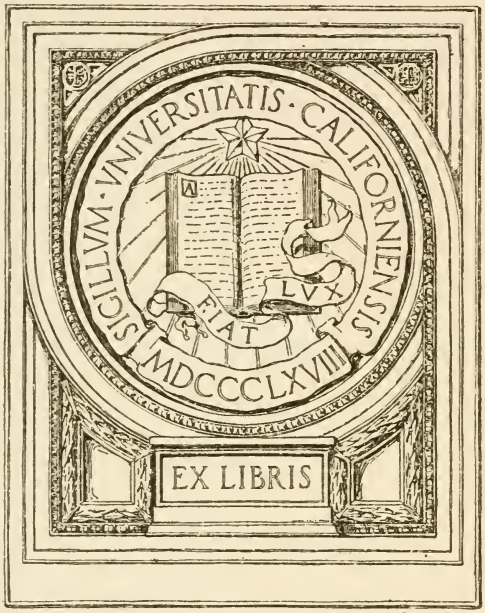

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MISREPRESENTATION IN RAILROAD AFFAIRS

Misrepresentation in Railroad Affairs

By George Kennan

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MISREPRESENTATION IN RAILROAD AFFAIRS

Misrepresentation in Railroad Affairs

CHAPTER I

Misrepresentation in Railroad Affairs

No public question or private transaction can ever be profitably discussed unless the essential facts involved therein are accurately set forth. In an article entitled "The Chicago & Alton Case," first published in the *North American Review* for January, 1916, and later reprinted in book form, I criticised as inaccurate and misleading certain statements concerning this case made by Prof. William Z. Ripley in a recently published book entitled "Railroads: Finance and Organization."[1]

These erroneous and misleading statements were: 1. That the Chicago & Alton Railroad, when the Harriman syndicate bought it, was doing "a constantly expanding business"; (2) that the syndicate made a profit of $23,600,000

[1] "Railroads: Finance and Organization," by Professor William Z. Ripley; N. Y., 1915, pp. 77, 262-266.

out of its financiering; (3) that the operations of the syndicate were "concealed," "covered up," "never disclosed," and "obscured in the published accounts"; (4) that the reorganization of the road created "the need of high rates for service in order to support the fraudulent capitalization"; (5) that as a result of the recapitalization the road was "physically crippled"; and (6) that Mr. Harriman was a "conspirator," whose management of the property was "unscrupulous," "fraudulent," "piratical" and "predatory." (pp. 77, 262-266.)

In my article on the Chicago & Alton case I furnished what seemed to me to be proof that each and every one of these statements was erroneous. Does Professor Ripley, in his reply (published in the *North American Review* for April, 1916), question my proofs, or attempt to make good his original assertions? Not in any way whatever. He brings up sundry new matters, and proves conclusively that the capitalization of the Alton was largely increased—a fact that has never been disputed—but he does not join issue with me on any of the points that I raised. So far, therefore, as silence can give consent, he virtually admits that the Harriman syndicate did *not* make $23,600,000 out of its financiering; that the Alton road, when the syn-

dicate bought it, was *not* doing "a constantly expanding business"; that the reorganized company did *not* raise rates "to support the fraudulent capitalization"; and that the property was *not* "physically crippled" as the result of Mr. Harriman's operations. In other words, he tacitly admits that his statements with regard to these particular matters were so erroneous that he does not care to defend them. Having cleared the ground to this extent, I now purpose to consider the first account, and the latest account, given by Professor Ripley of this Chicago & Alton transaction.

The earliest public reference that Mr. Ripley made to the case is to be found in a single paragraph of the report of the U. S. Industrial Commission of 1901. The report is signed by the Commissioners, not by Professor Ripley, but the latter says he wrote it, and doubtless he did. As it shows what he first thought of the "Alton business," and what the Commission thought of it, at a time when all the details of the reorganization were known or readily accessible, I quote the paragraph in full:

"An excellent illustration of inflation of capitalization is furnished by the recent reorganiza-

tion of the Chicago & Alton Railway Company. The old Alton management was extremely conservative. The stock had never been watered, and represented, before the recent deal, less than the probable cost of duplication. The company was capitalized at about $30,000,000, including $22,000,000 of stock and about $8,000,000 bonds. It had a net earning capacity of $2,900,000 a year, paying regular dividends of 7 or 8 per cent. on its common stock. In 1899 the road was bought by a syndicate, which paid $175 a share for the common stock and $200 a share for the preferred stock, making a total cost to the purchaser of $40,000,000 for the $22,000,000 of stock. The road was recapitalized at $94,000,000, or $54,000,000 of bonds and $40,000,000 of stock. The new bonds were floated at $3\frac{1}{2}$ per cent. The fixed charges of the road as reorganized amount to $1,963,000 per year. On the basis of the former earning capacity of the road, which averaged considerably more than $3,000 net per mile, it is estimated that the company will have no difficulty in earning its fixed charges and paying a dividend on the preferred stock. The increase of capitalization in this case is defended on the ground that the road will not have to earn any more than formerly in order to pay interest and dividends on the new capital. It seems clear, however, that the doubling of the capital stock and the increasing of the bonded debt nearly sevenfold must impose a burden upon the rates that will tend to prevent any reduction which might otherwise take place, and afford a

convenient reason for refusing to advance wages." (Report of U. S. Industrial Commission, Vol. XIX, p. 407.)

This is probably the most nearly accurate account of the financial reorganization of the Alton that Professor Ripley has ever given; but it contains no suggestion of "fraud," "piracy," "crippling," or "scuttling." On the contrary, it treats the transaction as an ordinary case of inflation, and admits that the reorganized company will probably "have no difficulty in earning its fixed charges and paying a dividend on the preferred stock." The only criticism made—and that a very mild one—is that the expanded capitalization may "tend" to prevent a reduction of rates and an increase of wages—two things that we now know it has not done.

Professor Ripley may say, in explanation of the marked difference between his first statement and his later statements, that at the time when he wrote the former the details of the reorganization were not known, because they had been "obscured," "concealed," or "covered up." But this explanation will not bear even the most superficial scrutiny. Every essential fact connected with the reorganization had been published in the financial journals of New York long before Professor Ripley wrote his first account

of the transaction. All that the Interstate Commerce Commission did, six years later, was to make a show of uncovering things that had never been covered. But if all the facts were known—as they were—in 1901, why did not Professor Ripley make his charges of "fraud," "conspiracy," "crippling" and "scuttling" at that time? No one would suppose, from reading his Industrial Commission report, that the Alton transaction involved anything worse than injudicious over-capitalization. When did he discover that the reorganization was "unscrupulous," "fraudulent," "piratical," and "predatory?" Not, apparently, until the Interstate Commerce Commission and its counsel began proceedings against Mr. Harriman as presumably a malefactor in 1907. If, as suggested by an English economist, "Professor Ripley believes that the utterances of the Interstate Commerce Commission are inspired," he might naturally be expected to follow the Commission's lead; but I can think of no other plausible explanation of the marked difference between the account that he gave of the Alton transaction *before* the Commission made its report, and the accounts that he has given *since* that time.

I come now to his latest statement of the Chicago & Alton case, which is contained in his

Review article. The unproved and unprovable assertions on the first page, with regard to Mr. Harriman's influence and power, do not seem to call for serious criticism. Everybody knows that Mr. Harriman was a prominent figure in the great fields of transportation and finance; but few believe, or can be made to believe, that he controlled "the greatest banking institutions" in the country; that he did what he liked with "the vast resources of the New York life insurance companies"; that "laws were enacted at his will"; and that "state and national conventions" assembled only to "take his orders." Able and influential Mr. Harriman undoubtedly was; but he never exercised the almost supreme control over railroads, banks, insurance companies, legislatures, and political conventions that is here attributed to him. When, therefore, Theodore Roosevelt intervened, as Mr. Ripley says he did, and "thwarted his" (Mr. Harriman's) "purpose to become an absolute dictator in transportation affairs," the President would seem to have acted without sufficient knowledge, or upon inadequate provocation. But would it not have been well for Mr. Roosevelt and Mr. Ripley to agree in advance upon their joint defence? Mr. Roosevelt says it is "monstrously iniquitous" to suppose that his "personal disagreement with a

railroad president" had anything to do with the prosecution of Mr. Harriman by the Interstate Commerce Commission. Then comes Professor Ripley with the declaration that it was "Theodore Roosevelt" who "blocked the path" of the ambitious railroad president and "thwarted his purpose." Who, then, really did do it? According to Mr. Ripley it was Theodore Roosevelt; but the latter seems to disclaim responsibility. This conflict of testimony leaves the question in doubt, and possibly we may never know who it really was that brought about the investigation of Mr. Harriman's past activities, and thus saved the country from an "absolute dictatorship in transportation affairs."

Professor Ripley's restatement of the Chicago & Alton case from his 1907 point of view does not seem to need extended comment. Neither does the page of statistical proof that the capitalization of the Alton was expanded. All this ground we have covered before. The only new matters brought up are: (1) the alleged disapproval of the Alton reorganization by Mr. Harriman's own counsel; (2) the amount of the new capitalization ($62,000,000) that Mr. Ripley says did not represent "one dollar of consideration"; (3) the increase of capitalization as compared with the "net average capitalization

of the railroads of the United States"; (4) the failure of the Alton Railway Company to report the 30 per cent. dividend to the Interstate Commerce Commission; (5) the responsibility for the present financial condition of the Alton Company; (6) the mortgaging of 34 miles of unbuilt road; (7) the alleged attempt to "cover up" the discount on the 3 per cent. bonds by means of deceptive bookkeeping; and (8) the alleged "concealment," in general, of the syndicate's operations.

1. *The alleged disapproval of the Alton reorganization by Mr. Harriman's own counsel.*

Professor Ripley quotes Mr. Paul D. Cravath, of Mr. Harriman's counsel, as saying:

"But . . . we are now dealing with the period which immediately followed the depression of 1893 . . . when very different standards were being applied from those applied now, and when many things were not only permissible, but were approved, which, under existing conditions and under the conservative influences which have come from success and from our rapid development, are now regarded as at least unwise."

Upon this Mr. Ripley makes the following comment:

"The foregoing admission that the Alton reorganization may be 'now regarded as at least

unwise'—a piece of bad business—few will question nowadays."

Mr. Cravath did not admit that the Alton reorganization was "at least unwise." He said that "many things were approved" twenty years ago which "are now regarded as at least unwise." His reference was to changes in business standards, not to the Alton reorganization as a whole. Speaking of a single feature of that reorganization—the issuing of common stock to represent anticipated earnings rather than intrinsic value—Mr. Cravath also said: "According to present practice this was unsound finance; but it was never dishonest finance. According to the standards of the time it was entirely defensible."

2. *The* $62,000,000 *of the new capitalization which, it is alleged, did not represent "one dollar of consideration."*

Professor Ripley says that a $40,000,000 3 per cent. mortgage was placed upon the property, "to take up $8,500,000 worth of first mortgage bonds, to make improvements—only $18,000,000 was, however, actually expended for this purpose—and for 'other corporate purposes.' This left a net increase of $62,000,000 of stock and liabilities without one dollar of con-

sideration." (p. 541.) Mr. Ripley's arithmetic is somewhat baffling. Eighteen millions from forty millions does not leave sixty-two millions. He apparently intends, however, that the $18,000,000 shall be subtracted from the gross increase of $80,000,000. This leaves, he says, "a net increase of $62,000,000 without one dollar of consideration." The clear implication is that this increase was all "water." But Mr. Ripley's statements do not agree with one another, nor do his computations work out. He quotes, and seems to accept as true, the old Alton Company's report for 1894, showing that the capitalization of the road "represented less than 60 per cent. of the actual cost of the property." (p. 540.) As the old capitalization was $34,000,000, and as this sum was "less than 60 per cent. of the actual cost of the property," the road, before the syndicate bought it, must have been intrinsically worth more than $57,000,000. If we add to this real intrinsic value the sum of $18,000,000 which Professor Ripley admits Mr. Harriman spent in betterments, we have an actual cash value, in 1906, of $75,000,000. This, subtracted from the total capitalization of $114,000,000, leaves only $39,000,000 of "water," instead of Professor Ripley's $62,000,000. But even this estimate of the "water" is much too large. Ac-

cording to Mr. Slason Thompson, Director of the Bureau of Railway News and Statistics, the reproduction cost of the Alton in 1907, including the largely enhanced value of terminals, right of way, etc., would cover all of the new capitalization except the common stock. (See "Cost, Capitalization, and Estimated Value of American Railroads," by Slason Thompson, first edition, p. 187, Chicago, 1907.) Even the common stock represented the potential earning capacity of a rebuilt and re-equipped road, and the company was actually earning 5 per cent. on it when the control of the property was transferred to the "Clover Leaf" in 1907.

3. *The increase of capitalization.*

Professor Ripley says that after the Harriman syndicate bought the Alton its total capitalization, within seven years, was "expanded from $33,951,000 to more than $114,000,000—an increase of securities exceeding $60,000 per mile, that being about the average net capitalization of the railroads of the United States at the present time." (p. 540.) According to the Bureau of Railway Statistics, the average net capitalization of all the railroads in the North Atlantic States was $102,931 per mile. (See "Cost, Capitalization, and Estimated Value of American Railroads," by Slason Thompson,

p. 98.) Three of the most important railroads of the country, viz.: the Baltimore & Ohio, the Delaware & Lackawanna, and the Reading, are capitalized respectively at $106,000, $115,000, and $169,000 per mile, net. (See "Railroads: Finance and Organization," by William Z. Ripley, p. 75.) The expanded capitalization of the Alton per mile, according to Mr. Ripley's figures, was less, in 1907, than that of the Lackawanna, or the Reading, and did not greatly exceed the average of all the railroads in the North Atlantic States.

4. *The failure of the Alton Railway Company to report the 30 per cent. dividend to the Interstate Commerce Commission.*

Professor Ripley sets forth this omission with the emphasis of italics; but, as a matter of fact, there was no requirement of law which made it necessary for the Alton Railway Company to report this dividend. The fact that it had been declared was made public in all the leading financial journals of New York, consequently it could not have been hidden from the Commission, nor from anybody else.

5. *The responsibility for the present financial condition of the Alton Company.*

Professor Ripley says that "the road has failed to earn even its fixed charges since 1912 by

about $6,600,000, the deficit growing larger year by year." If this means that the deficit has grown larger every year from 1912 to date, the statement is not true. The New York *Times*, commenting upon the annual report of the Alton Company for 1915, says:

"The Chicago & Alton failed by $1,690,156 to meet charges, but this deficit is $1,072,133 smaller than the 1914 deficit." (New York *Times*, October 22, 1915, also *Railway Age Gazette*, October 29, 1915.)

But this, perhaps, is an excusable inaccuracy. It is much less pardonable to say, as Professor Ripley does, that the Alton was "financially assassinated" by the Harriman syndicate in 1899. (p. 541.)

When Mr. Harriman and President Felton severed their connection with the Alton, after the transfer of control to the Toledo, St. Louis & Western in 1907, the road was paying the stipulated dividend of 4 per cent. on its preferred stock and earning 5 per cent. on its common. It was, therefore, not only a solvent but a prosperous road. What happened afterward? Between 1907 and 1912, under the Shonts management, the gross earnings increased 13.5 per cent., while the net earnings fell off 27.8 per cent. The

result of the later management may be shown in tabular form as follows:

	1907	1912
Gross earnings	$12,809,426	$14,535,722
Net earnings.	4,415,974	3,188,865
Operating ratio . . .	65.5	78

It thus appears that the road, in 1912, was doing $1,726,296 more business than in 1907, while, at the same time, it was earning $1,227,109 less money, net, owing largely to the fact that it had increased its operating expenses from 65.5 to 78 per cent.

If the year 1907 (the last year of the Harriman-Felton management) be compared with the year 1915 (the latest year for which a report has been made) the result is equally instructive.

	1907	1915
Gross earnings	$12,809,426	$14,245,624
Net earnings.	4,415,974	2,660,584
Operating ratio . . .	65.5	81.3

In this period of eight years the volume of business increased more than 11 per cent. (11.21) while the net earnings fell off nearly 40 per cent (39.67). This in itself is quite enough to account for the Alton's present financial condition, and for this the Harriman syndicate cannot possibly be held responsible. Mr. Harri-

man left the road on a dividend-paying basis in 1907, and two years later he died. It is by no means certain, moreover, that the Alton was ever "financially assassinated" by anybody; and the road is far from being "moribund" or "prostrated" now. It is serving the public better than it ever did before the reorganization, and under the present management it increased its net earnings from 1914 to 1915 by $1,277,787. (See *Railway Age Gazette*, October 29, 1915.) Mr. Ripley says that the reorganization was an "opportunity industrially lost by the people because privately exploited by a few." (p. 541.) If getting better transportation at lower rates is a loss to the people, the people have unquestionably lost; but, from the economic point of view, improved service at reduced cost would seem to be a gain.

6. *The mortgaging of 34 miles of unbuilt road.*

At the time when the Chicago & Alton Railway Company was organized it was thought expedient to secure the right to build, in the future, a short cut, or air line, between Springfield Junction and Murrayville, which would reduce, by about five miles, the distance between Kansas City and Chicago. The projected cut-off was to be only 34 miles long, and the survey showed that it could be built over easy grades,

not exceeding in any place 16 feet to the mile. The estimated cost was about $600,000, and it was thought that this sum could easily be saved out of earnings. When it was proposed to put a mortgage on a part of the road, to secure a part of the bond issue, the question came up: should such mortgage be made to cover this legally authorized but as yet unbuilt cut-off? Counsel for the company and counsel for the trustee both advised that the short branch line be included, because it would be better to subject it to the lien of the mortgage then being executed than to create another mortgage lien at a later time. Upon this advice Mr. Harriman and his associates acted; but in order to proceed openly and above-board, they distinctly said, in their listing application to the New York Stock Exchange:

"This line has been surveyed but has not yet been constructed. By advice of counsel it was included in the description, so as to fasten the lien of the mortgage thereon as soon as constructed." (See *Commercial & Financial Chronicle*, November 17, 1900.)

At the time when the Interstate Commerce Commission investigated the Alton reorganization, about $1,000,000 had been spent on this Murrayville cut-off and it was nearly done. It

was completed in July, 1907, and opened to traffic in August.

By quoting selected parts of the testimony of the Rock Island Company's controller, Mr. Charles W. Hillard, Professor Ripley tries to make it appear that in this mortgaging of an unbuilt branch line there was something crooked, if not illegal. As a matter of fact, however, the mortgaging of a short stretch of unbuilt line was not only a legal but a very common practice. At a later stage in the hearing Controller Hillard himself said:

"I would like to make a little explanation. I fear the language I used in answering the question propounded yesterday was not as it should have been. It has been taken as a criticism of making a mortgage on a road before it was constructed. That I know to be a very common thing. . . . I know it to have been true for many years. I have done it myself." (Official testimony, pp. 21-22.)

If Professor Ripley had wished to be perfectly fair, he would have quoted this part of Controller Hillard's testimony as well as the parts that he selected, but, then, of course, he could not have made the impression that he was apparently trying to make.

7. *The alleged attempt to "cover up" the discount on the bonds.*

By again quoting a selected part of the testimony of Controller Hillard—a part drawn from him by the improper leading questions of the Commission's counsel—Professor Ripley tries to make it appear that an ordinary and customary treatment of items in double-entry bookkeeping was an attempt to conceal the sale of the 3 per cent. bonds to the stockholders at a discount of 35 per cent. The matter in question was the propriety of charging the discount against the surplus of $12,444,000 obtained by capitalizing sums spent for past betterments. The Rock Island controller—a more or less critical but apparently a fair and candid witness—tried to explain to the commission that this treatment of the items was "a matter of" bookkeeping "judgment." "Having done what they did do," he said (that is, having capitalized past betterments) "they had a perfect right to credit this $12,444,000 to profit and loss; and then the discount on bonds was a proper charge against profit and loss." (p. 11 of Hillard's testimony.) The witness disapproved the capitalization of sums spent for past betterments; but he saw nothing wrong in the bookkeeping. By skilful elimination and substitution, however, Pro-

fessor Ripley makes Mr. Hillard seem to condemn the method of keeping accounts. In the testimony relating to the bookkeeping, Professor Ripley quotes Commissioner Lane as asking the following question, and Mr. Hillard as making the following reply:

"Commissioner Lane: If those things could be done . . . would not a practice of that kind destroy the integrity and uniformity of railroad accounts generally?"

"Mr. Hillard: It would upset the whole system."

The reader naturally supposes that the question of the Commissioner and the reply of the witness related to the method of bookkeeping, that is, to the setting off of the bond discount against the $12,444,000 surplus, for the alleged purpose of concealment. In fact, however, they related to a wholly different matter. In Professor Ripley's quotation they are made a part of Mr. Hillard's testimony on a question of bookkeeping. In the official record they appear as a part of his testimony on the question whether a later board of directors can properly reverse the action of an earlier board. Professor Ripley puts two scraps of testimony together as if they belonged together; but in the

official record they are four pages apart and relate to wholly different matters. Mr. Hillard did not say that the Alton's bookkeeping methods would "upset the whole system" of railroad accounting. He said that if one board of directors should pay for betterments out of revenue, and a later board should reverse that action and charge those same betterments to capital, such a practice would "upset the whole system." (Mr. Hillard's testimony, pp. 12, 16.)

It is proper enough, in quoting the testimony of a witness, to omit such parts of it as may not bear on the matter in hand; but it is not proper, by eliminating four pages, to make a witness seem to say what he did not say. Commissioner Lane's question and Mr. Hillard's answer are made by Professor Ripley to discredit the bookkeeping; while, in reality, both related to an entirely different subject which had been taken up after the question of bookkeeping had been dropped. Such garbling of an official record is not permissible.[1]

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[1]The testimony, as Professor Ripley gives it, is as follows (omitting all except enough to show the context):

"Mr. Kellogg: But charging the discount on the bonds against this would cover it up on the books, would it not?"
"Mr. Hillard: Yes."
"Mr. Kellogg: It would tend to obscure it, would it not?"
"Mr. Hillard: Yes, so far as the public were concerned." (p. 12.)
"Commissioner Lane: If those things could be done . . . . would

Professor Ripley, however, resorts to improper elimination, not only when he quotes the testimony of Mr. Hillard, but also when he quotes the testimony of Mr. Harriman. In the latter case he eliminates fourteen pages; and if after reading in the official report the first part of his quotation you wish to find the last part, you must skip from page 117 to page 131. Five asterisks are hardly enough to indicate the omission of five or six thousand words. The matter under investigation was the failure of the Alton Company to pay dividends on its common stock. Mr. Kellogg asked Mr. Harriman: "Don't you think that when stock of a railroad

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not a practice of that sort destroy the integrity and uniformity of railroad accounts generally?" (p. 16.)

"Mr. Hillard: It would upset the whole system." (p. 16.)

The testimony as the official record gives it is as follows:

"Mr. Hillard: Each board of directors has a perfect right to appropriate that" (the money earned). "They have the option to pay it in dividends, or set it aside; and when they have exercised that option it is final. No subsequent board of directors can revoke it."

"Commissioner Lane: If those things can be done, and revoked from time to time as the directorate changes, would not such a practice destroy the integrity and uniformity of railroad accounts generally?"

"Mr. Hillard: It would upset the whole system." (p. 16.)

In order to make Commissioner Lane's question and Mr. Hillard's answer (about changes in the directorate) fit into the place to which Mr. Ripley transfers them (the discussion about the bookkeeping) the professor found it necessary to omit the Commissioner's words: "and revoked from time to time as the directorate changes." Upon such manipulation of official testimony it is hardly necessary to comment.

company is put out there is some obligation, at some time, to pay something on it? Professor Ripley quotes Mr. Harriman as replying merely: "Yes, sir." (p. 117.) Then the Professor puts in five asterisks and coolly jumps fourteen pages to another question! (p. 131.) What Mr. Harriman really said was: "Yes, sir—wait a minute!" —showing that he wished to make an explanation. Mr. Kellogg, however, would not listen, and was already asking another question when Mr. Harriman again said: "Wait a minute!" The witness finally got a chance to explain; but his "Wait a minute!" and his explanation are in the fourteen pages that Mr. Ripley omits.

Such manipulation of documentary material is not creditable to a professor of economics. It might perhaps be the last resort of an unscrupulous attorney who felt conscious that he had a desperately weak case; but it is not fair controversy, nor is it fair to Mr. Harriman.

The whole question of alleged "concealment," by means of "deceptive bookkeeping," seems to me to be conclusively settled by the wide publicity given in the press to the discount on the bonds, which, according to Professor Ripley, it was the purpose of the syndicate to conceal. No sane and reasonable man juggles with his books in order to conceal a certain fact, while, at the

same time, he publishes that fact broadcast in the newspapers. The sale of the 3 per cent. bonds to the stockholders at a discount of 35 per cent. was made known to the public through all the leading financial journals of New York. The circular offering the bonds to the stockholders at 65 was noticed in the *Commercial & Financial Chronicle* of July 22, 1899, and again in the issue of April 14, 1900. Reference to it may also be found in the *Manual of Statistics* for 1900, p. 61; in *Moody's Manual* for 1901, p. 1198; in the listing application to the New York Stock Exchange, November 17, 1900; and in various letters and circulars issued and widely distributed by the Alton Company in the summer of 1899. To every broker and well-informed investor the fact was not only known but perfectly understood. In commenting, seven years later, upon this feature of the reorganization, the *Commercial & Financial Chronicle* said:

"The sale of the 3 per cent. refunding bonds at 65 has been heralded in the press as if it marked the uncovering of some hidden item; and surprise has been affected at the idea that the bonds should have been disposed of at such a low (as assumed) figure. The truth is, these bonds were offered for subscription to the stockholders of the company at the figure given, and

announcement of the offer was conveyed to them through circulars, Stock Exchange listing applications, and in various other equally public ways. If any one cares to pursue the inquiry he will find a news item concerning this subscription offering in one of our issues nearly seven years ago, namely, in the *Chronicle* of April 14, 1900, p. 739. In our Investor's Supplement, which is a reference book containing a standing record of facts, this particular feature of the reorganized company was noted in number after number, year by year, until July, 1905. (Editorial in the *Commercial & Financial Chronicle* for March 2, 1907, just after the Alton investigation.)

Nothing but a fixed determination to blacken Mr. Harriman's reputation could have led counsel for the Government to charge the Alton syndicate with a resort to "deceptive bookkeeping" as a means of concealing the 35 per cent. discount on the 3 per cent. bonds. Mr. Kellogg knew, or ought to have known, and Professor Ripley now knows, or ought to know, that instead of trying to "cover up" the discount, the syndicate was giving it the widest possible publicity through the leading financial journals of the country.

8. *The alleged "concealment," in general, of the Alton syndicate's operations.*

Professor Ripley says: "So adroitly was everything concealed that not even the Rock Island 'crowd'—not unskilled in the ways of Wall Street—suspected the actual situation until they had acquired a half interest in the road."

That the "Rock Island crowd" should have been ignorant of the condition of the Alton when they bought a half interest in it is practically impossible. If they had had no other sources of information than the files of the *Commercial & Financial Chronicle*, they would have found therein every fact that it was necessary for them to know, not only with regard to the financial condition of the road, but with regard to all the operations of Mr. Harriman and his associates.

The whole charge of "concealment" may best be refuted, perhaps, by means of quotations from the journal above named. In the course of the Alton investigation, counsel for the syndicate and counsel for the Commission both agreed that a file of the *Commercial & Financial Chronicle* should be put in evidence, and that either side should be at liberty to refer to it as an authority on financial transactions. (Mr. Harriman's testimony in the Alton investigation, pp. 188 and 386.)

The *Chronicle's* references to the Chicago &

Alton reorganization began as early as February 4, 1899, when it made public the fact that the road had been purchased by the syndicate, and that "the deal would be financed by Kuhn Loeb & Co." As the earlier steps in the reorganization have never been questioned and are not now in dispute, I pass over references made to them in the numbers of the *Chronicle* for February 11, February 25, March 4, March 18, April 1, April 8, May 20, May 27, June 24, July 1, and July 15, 1899, and begin with the number for July 22, 1899, when the syndicate issued a circular offering the 3 per cent. bonds to the stockholders at a discount of 35 per cent. This is one of the matters that Professor Ripley says was "covered up," and that he thinks the Interstate Commerce Commission uncovered in 1907. The *Chronicle* published it in July, 1899, and explained what the syndicate proposed to do with the proceeds of these bonds.

One week later—July 29, 1899—the *Chronicle* announced that Goldman Sachs & Co. had arranged to purchase from the syndicate $10,000,000 of these securities. This is another "concealed" matter that the Interstate Commerce Commission triumphantly brought to light seven years after the *Chronicle* had made it public.

On the 7th of April, 1900, the *Chronicle* announced the incorporation of the Chicago & Alton Rail*way* Company, and said that it would lease the Chicago & Alton Rail*road* Company for a period of ninety-nine years. "A new corporation was necessary," the *Chronicle* explained, "because the charter of the old company would not permit the merger of the new acquisitions" (the Quincy Carrolton & St. Louis Railroad and the Peoria Northern Railroad). Professor Ripley, however, gives a different explanation, based on the theory of more "covering up." He asserts that the purpose of the syndicate in creating a new corporation was to "obscure the income account" of the old company, and that it was merely a shrewd "device." But he furnishes no evidence in support of his assertion, nor does he show that the "income account" of the old company ever was "obscured."

On the 14th of April, 1900, the *Chronicle* printed the annual report of the Alton Company for the year ended December 31, 1899. This report showed that the company had capitalized the sum of $12,444,000 which had been spent for betterments, and had previously been charged to revenue.

May 5, 1900, the *Chronicle* noted the fact

that another mortgage had been executed to secure $22,000,000 of 3½ per cent. bonds, and one week later—May 12, 1900—it explained that this mortgage was a lien on the stock of the old company, as well as on the track and equipment of the Peoria Northern.

On the 12th of May, 1900, the *Chronicle* announced the declaration of a 30 per cent. "extra" cash dividend on the stock of the old company, and said that this dividend represented "the accumulated surplus earnings of the company which had not been distributed to the stock," but had been "diverted from it."

May 19, 1900, the *Chronicle* clearly stated the fact that the 30 per cent. dividend covered a part of the surplus of $12,444,000 obtained by capitalizing sums spent for betterments in previous years. It also gave an explanation of the relations between the Alton Rail*way* Company and the Alton Rail*road* Company, and set forth the terms on which the latter had been leased to the former. Finally, it gave the amounts of the new securities that had been distributed proportionately among the members of the syndicate, and a little later stated that the market value of the cash and new securities so distributed was $1,115.75 for every $1,000 subscribed.

November 12, 1900, the *Chronicle* published in full the listing application to the New York Stock Exchange, in which every feature of the reorganization that could possibly interest or concern an investor was fully and clearly described.

First and last, in the two years 1899 and 1900, the *Chronicle* published no fewer than thirty-six editorials, statements, circulars, reports, notices, or news items, relating to the Chicago & Alton reorganization; and if there was any fact "uncovered" by the Interstate Commerce Commission in 1907 that had not been uncovered by the *Commercial & Financial Chronicle* six years earlier, I have been unable to find it.

Professor Ripley says, in his latest article, that "everything hinges" on the questions "whether frank and full publicity prevailed," and whether those who bought the Alton securities from the syndicate "purchased them under a misapprehension as to their value." (p. 543.) The evidence above set forth, which is taken wholly from a journal recognized by the Commission itself as an authority, seems to me to show conclusively that every feature of the Alton reorganization was laid frankly and fully before the public, and that no investor who bought Alton stocks or bonds could possibly

have "purchased them under a misapprehension as to their value."

Who, then, was hurt by the operations of Mr. Harriman and his associates? Not the old stockholders, because, as even Mr. Ripley admits, they received "top-notch prices" for their stock; not the new stockholders, because they are accused of making even more profit than they should have made; not the subsequent investors, because they bought with full knowledge of what they were buying; not the shippers, coal miners, farmers, and manufacturers along the line of the road, because they got infinitely better transportation at much lower rates; not the road itself, because it was so improved by Mr. Harriman that its efficiency was more than doubled. Who, then, were the injured? Apparently only Professor Ripley, Theodore Roosevelt, and the Interstate Commerce Commission.

The only question that remains unsettled is whether Professor Ripley, in his book and in his articles, has accurately presented the facts of the Alton reorganization. My own judgment is that he stated them with reasonable accuracy in the report that he wrote for the U. S. Industrial Commission in 1901, but that he has persistently misstated them ever since the Interstate Com-

merce Commission began its attack on Mr. Harriman in 1907.

In an address on "Education for Railway Work," delivered September 24, 1915, at the annual opening of the Commerce School of the Northwestern University, Chicago, Mr. Samuel O. Dunn, editor of the *Railway Age Gazette*, said:

"There is much teaching regarding railway matters in our universities which is not satisfactory. No one has any right to criticise a professor of economics, or of transportation, or of any other subject, for drawing his own conclusions from well-authenticated facts, no matter how irrational the conclusions may seem. But the public, the railways, and most of all the students in our schools, have a right to demand that those who assume the responsibility of giving instruction concerning railway matters shall make sure they know the facts about them before they try to teach others." (*Railway Age Gazette*, November 12, 1915.)

I feel reasonably certain that when Mr. Dunn made these remarks he did not have in mind the Ropes Professor of Economics in Harvard University; but, if I may make the suggestion with all proper courtesy and respect, Professor Ripley's teaching would be none the worse if he should give Mr. Dunn's words the serious consideration that they seem to deserve.

In concluding this second review of the Chicago & Alton case, and of Professor Ripley's statements concerning it, I ought, perhaps, to say something with regard to the way in which the federal investigation of 1907 was conducted by the legal counsel who represented the Interstate Commerce Commission. In an article published in the *Market World & Chronicle* for March, 1915, Major Henry L. Higginson of Boston said that the Government should instruct the various Commissions "not to proceed against corporations as a criminal lawyer proceeds, but as judges, fair-minded, open-minded, and industrious in learning the facts with regard to which they judge." (N. Y. *Evening Post*, March 20, 1915.)

Was this the spirit in which the Chicago & Alton investigation was conducted by the Interstate Commerce Commission? Certainly not! A correspondent of the London *Economist*, who was present at the taking of testimony in New York, described the proceedings in the following words:

"The members of the Commission surprised many present at the last New York session by their manifestly hostile spirit toward Mr. Harriman and witnesses allied with him. It had been imagined that the Commission was there purely

to secure such testimony as it might; and that it appreciated the fact that it was in no sense acting as a court having charge of any one accused of crime. Yet, from the manner and form of questions put by several of the Commissioners, it was difficult to understand how they regarded it so—if indeed they did. Neither is it any violation of fact to explain that the Commission's lawyers acted toward Mr. Harriman and Mr. Kahn quite as if they were prosecuting attorneys who had at last got before the bar of justice some well-known malefactors. Not only did they seek at times to prevent witnesses from replying freely to questions, but they were truthfully accused of seeking to so put questions and so insist upon replies as to leave misleading impressions." (London *Economist*, March 16, 1907.)

These words were not written for an American newspaper prepossessed in favor of Mr. Harriman. They were written for one of the best-known financial journals of England, and were to be read by the people of Great Britain. Is it an unfair, or unreasonable, conclusion from these facts that the Commission and its counsel were not trying to investigate impartially the Chicago & Alton reorganization, but were endeavoring to make out, if possible, a case of criminality against Mr. Harriman? The so-called investigation was a one-man hunt, if ever there was

one. This fact was well understood by the better informed part of the public, and in June, 1907, the *Economist* said editorially:

"The report was afloat last week that after a conference between the President and the members of the Interstate Commerce Commission it was decided that no violation of law by Mr. Harriman had been discovered under which action could be taken against him. . . . It will be too bad for the Government to fail of accomplishing anything after all this talk. If they cannot put him through for railroad manipulation, why don't they charge him with carrying concealed deadly weapons, or breaking the Sabbath, or shooting game out of season? Anything to catch him. It won't do to give it up in this weak way." (*Economist*, Chicago, June 1, 1907.)

But if the conviction of Mr. Harriman as a law-breaker was the object of the one-man hunt, it was a complete failure. The Interstate Commerce Commission had to report to the President, as stated by the *Economist*, that "no violation of law by Mr. Harriman had been discovered," and that legal proceedings against him would not be expedient.

This was evidently the conclusion reached also by the Rock Island Company, and the To-

ledo, St. Louis & Western Company, which controlled the Alton successively between 1906 and 1912. Their managers certainly were not partial to Mr. Harriman, nor coöperative with him, but they never attempted by litigation to bring him or his associates to account for anything done in the course of the Alton reorganization. The question of legality, therefore, would seem to be conclusively and finally settled. The whole transaction, in the words of Mr. Paul D. Cravath, "was legal from beginning to end."

Such also was the judgment of the best English and American authorities at the time when the Alton investigation was made. In a long editorial, published April 27, 1907, the *Commercial & Financial Chronicle*, an authority officially recognized by the Interstate Commerce Commission, referred to the Alton reorganization in the following words:

"We know of no railroad transaction which has been so generally and so sweepingly condemned. And it is difficult to see why this should be so. In its main features this reorganization did not differ essentially from numerous other reorganizations, none of which have been criticised. We can explain the general expressions of disapprobation on no other theory than that the facts are but imperfectly understood—

or not understood at all—owing to the sedulous efforts that have been made to create erroneous impressions with regard to the same. Newspaper headlines and editorial and other comment, gave the impression that in this reorganization a few leading financiers got together, secured control of the property and looted it, at the same time fleecing the security holders; while in all the years since then the road has been engaged in robbing its patrons by charging them exorbitant prices for transportation service rendered them. Nothing could be further from the truth." (*Commercial & Financial Chronicle*, April 27, 1907.)

The London *Statist* of April 6, 1907, published an interview with Mr. Robert Fleming, one of the most eminent English authorities on American railroads, in which the English banker said he could see nothing illegal or improper in the Alton transaction. In commenting on the increase of capitalization, he pointed out the fact that inflation of the same kind, in England, has repeatedly been sanctioned by both Houses of Parliament. The "Ordinary" shares of the Midland Railway, for example, were thus increased from 38,000,000 pounds to 76,000,000 pounds. Mr. Fleming also said that the whole net profit of the Alton syndicate, in which he participated merely as an investor, "was only 8

per cent.—about 5 per cent. per annum—nothing very extraordinary surely." (London *Statist*, April 6, 1907.)

Another eminent English authority on American railroads, who is at the head of one of the most famous financial houses of the world, said that he "did not understand the outcry" (in the Alton case) "because nothing had been done that required apology."

Mr. H. T. Newcomb, a well-known American economist and statistician, who was in the employ of the Interstate Commerce Commission for seven years as railroad expert, published an article in the *Railway World* for September 17, 1909, in which he expressed his opinion of the Alton transaction, and of Mr. Harriman, in the following words:

"Animadversions upon the methods which accompanied the rebirth of the Chicago & Alton did not begin until nearly ten years after the episode had passed into history. They could not have originated out of the state of public opinion of the year (1898) in which the reorganization occurred, nor were they at any time based upon any valid and substantial detriment to the traveling and shipping public, or any real damage to provident investors. Even when official agitation against railway managers and financiers as a class had aroused a superficial

public sentiment which sought out opportunities to suspect and to condemn, it was impossible to convince the thinking majority that the substitution of an active and vigorous management for the rigid unprogressiveness of the administration of the able but unprogressive President Blackstone had been really injurious to any one, or that the readjustment of capital issues incident to the physical reconstruction which followed change of control could impose additional charges upon travel or transportation. The facts cannot be repeated too often, or be too much emphasized. Between 1897, the year before the reorganization, and 1907, the Alton's average charge per passenger, per mile carried, declined from 21.16 mills to 20.25 mills (4.3 per cent.) and the average charge per ton per mile for freight was reduced from 8.91 mills to 6.04 mills, or 32.2 per cent. At the same time, the amount of work done in the public service more than doubled, and the typical unit of service became of higher quality, travel became safer and more comfortable, transportation more expeditious.

Nearly the whole mileage of the company was relaid with heavier rails; passenger car capacity was doubled; freight car capacity was trebled; and aggregate tractive power increased more than twofold. This is plainly a process of cheapening transportation by substituting lower capital cost for the part of the former operating or labor cost of moving persons and property. Yet, in spite of these changes, which required an

expenditure for betterments exceeding one-half the former cost of the property, the proportion of gross freight rates from operation, paid to capital of all sorts in 1905, was but 27.37 per cent., an increase of almost exactly one-eighth of one per cent. from 27.24 per cent. in 1899.

The reconstruction of the Alton was a fundamental industrial necessity, which was certain to be undertaken by some one, and there is nothing in the manner in which it was accomplished, or in the results attained under his management, that is not creditable to Mr. Harriman. . . . If history ever learns to award credit and fame by an adequate admeasurement of services rendered, no citizen of America who has lived and worked in recent decades will be placed higher than he who restored the Union Pacific, regenerated the Alton, made the Illinois Central a harmonious unit in a coördinated transportation system, and rescued the Erie. He gave himself with labor unceasing while he lived and wrought." (*Railway World*, September 17, 1909.)

It would not be difficult to furnish much more evidence that the reorganization of the Alton has been persistently misrepresented and generally misunderstood; but one more citation must suffice:

No economist in Europe is better acquainted with American railroads that Mr. W. M. Ac-

worth, lecturer in the School of Economics in London. In a review of my "Chicago & Alton Case," published in the London *Economic Journal* for March, 1916, Mr. Acworth says:

"Mr. Kennan writes with studious moderation, and gives chapter and verse for every statement he makes. But he meets the charges of Professor Ripley with so emphatic a contradiction that it would seem that he has not only vindicated the honor of Mr. Harriman, but laid upon Professor Ripley the obligation of defending his own accuracy and scientific impartiality. . . . If the facts be as Professor Ripley has stated, then perhaps his language describing Mr. Harriman as a 'conspirator,' and his management as 'unscrupulous,' 'piratical,' 'fraudulent,' and 'predatory' may not be too strong. But unless he can disprove the facts set forth by Mr. Kennan, it would seem that Professor Ripley has done grievous injustice to the memory of a man whose services to the science of railroading will hardly be reckoned, by those who know what his work was, as less than those rendered by George Stephenson himself."

THE PSYCHOLOGY OF MR. ROOSEVELT

CHAPTER II

The Psychology of Mr. Roosevelt

In the *North American Review* for April was printed a letter from Mr. Roosevelt in which he referred to me, rather contemptuously, as "*a*" Mr. Kennan; accused me of concealment, meanness, dishonesty, and cowardice; characterized as "monstrous iniquity" my suggestion that there might have been some connection between the Harriman quarrel and the Alton investigation; and finally declared that I am "unfit to be believed," and that he "would refuse to accept my unsupported assertion on any point whatever," in connection with this subject.

In the brief reference that I made to Mr. Roosevelt in my article on the Chicago & Alton case in the January *North American Review*, I endeavored to treat him with courtesy. It seemed necessary to point out the fact that the rupture of friendly relations between Mr. Roosevelt and Mr. Harriman occurred in the fall of 1906, and that almost immediately thereafter the Interstate Commerce Commission began an

attack on Mr. Harriman which was based on transactions that were then nearly eight years old. A reference to this chronological sequence of events seemed to me justifiable and proper, as a possible explanation of the Commission's sudden interest in ancient railroad history. In making such reference, however, I tried to be as courteous to Mr. Roosevelt as I could—purposely avoiding a discussion of the Roosevelt-Harriman controversy on its merits, and explaining it only so far as seemed to be necessary in order to show its possible bearing on the Chicago & Alton investigation. Mr. Roosevelt calls my forbearance "concealment," and replies by attacking my personal character. No self-respecting man will silently submit to the charge of untruthfulness, nor ought he to do so if conscious of his own sincerity. In Mr. Roosevelt, the making of this charge has become a habit; and in replying to such an accusation from him it seems necessary, and in the public interest, to devote some consideration to those traits of his character which have prompted him to describe as "unworthy of belief" so many men who have disagreed with him on questions of fact.

I first saw Mr. Roosevelt, in New York City, more than twenty years ago, at a meeting of the old Fellowcraft Club, to which I was taken by

Richard Watson Gilder, and at which Mr. Roosevelt made a short speech on tendencies in modern literature. The first impression that he made upon me was that of a robust hater and vehement denouncer of people who were repugnant to him. In the class of "undesirable citizens," at that time, happened to be a certain well-known American novelist. I cannot now remember all the unpleasant things Mr. Roosevelt said about him; but he summed up his estimate of the obnoxious writer's character and art in the words: "Some men are bad, and some men are immoral; but —— —— is a malignant pustule!" As this characterization was made with a fierce gesture and a clenching of the strong white teeth, I said mentally to myself: "If this young Civil Service Commissioner fully develops his capacity for hatred and his natural gift for denunciation, he will be, in the maturity of his powers, an unpleasant man to encounter."

About this same time, according to the recollection of a well-known author and publisher, Mr. Roosevelt came from Washington to New York "mainly in order to have the satisfaction of saying, with solemn emphasis, in the sympathetic circle of the Civil Service Reform Association, 'Damn John Wanamaker!'" (*Memories of a Publisher*, by George Haven Putnam, p.

141.) Doubtless Mr. Roosevelt could have given perfectly good reasons for condemning the novelist and damning John Wanamaker; but be that as it may, the incidents are of interest as showing that his disposition to denounce the conduct of his opponents as "monstrous iniquity" became apparent almost at the beginning of his public career.

After the meeting at the Fellowcraft Club I do not remember seeing Mr. Roosevelt again until we were thrown together in the Cuban campaign, when he was with the Rough Riders and I, as Vice-President of the Red Cross, was serving in the field hospital at the front. He then came to me several times for food and medicines, which, on account of the unprepared state of the army, he could not get elsewhere.

Between 1902, when he instructed the Secretary of the Navy to give me transportation on the cruiser *Dixie* to Martinique, and 1904, when he invited me to luncheon at the White House to discuss with other Far Eastern travelers the Russo-Japanese war, I saw Mr. Roosevelt frequently and talked with him concerning many different affairs. I was then the staff correspondent of the *Outlook* in Washington, and my duties made it necessary for me to go to the White House often, and to talk with the Presi-

dent about various Governmental matters that had been referred to me from the home office. Among such matters were the political activities of J. Edward Addicks in Delaware, with regard to which I made several reports to him; and the attempt of two Texan cattle syndicates to get possession of a large part of the Indian Reservation of the Standing Rock Sioux. In the latter case Mr. Roosevelt felt confident, at first, that my statements were erroneous; but when, partly upon my initiative, he sent Mr. George Bird Grinnell to the Standing Rock Agency to make an investigation, he found that my information was in every respect accurate. I am glad to do him the justice of saying that when he was fully convinced of this he blocked the syndicate "steal" with characteristic promptness and vigor.

During my stay in the Far East, from 1904 to 1906, I wrote Mr. Roosevelt a number of times about the question of Japanese immigration, which was then becoming acute, and I was the first, so far as I know, to suggest to him the expediency of allowing the Japanese to limit emigration on their side of the Pacific. Within a year or two thereafter he negotiated with the Japanese Government the so-called "gentlemen's agreement," which is still in force.

After my return from the Far East I saw Mr.

Roosevelt several times, by appointment, at the White House, and once, I remember, after talking with him for an hour and a half, I was asked to stay a little longer and tell him more things while he was being shaved. Then again, toward the end of his second term, he gave me confidentially, in his White House office, his reasons for believing that Mr. Taft would be the best possible candidate to succeed him. Finally, after he joined the staff of the *Outlook*, of which I was also a member, we were again thrown more or less frequently together, and I met him occasionally at the editorial lunches.

These personal details have little interest perhaps in themselves, but they show what opportunities I have had to observe Mr. Roosevelt, and they also show, incidentally, that when he now speaks of "*a*" Mr. Kennan, as if hearing of me for the first time, he is not wielding the proverbial "big stick," but is using a rather small domestic pin.

I have always regarded Mr. Roosevelt with respect and esteem, as a man of sincerity and integrity. I do not think that he would, or could, make a statement that he did not believe to be true. Unfortunately, however, he is easily swayed by passion, and when he is angry—righteously angry as it seems to him—his judg-

ment and his memory are so colored by personal feeling that he can neither see with perfect clearness nor remember with perfect accuracy. He is not consciously unjust or untruthful; on the contrary, he passionately believes that his judgment is fair and his memory infallible. He can review his past controversies with the firm conviction that he has always been right, or nearly right, and that those whom he regards as his enemies have always been "monstrously" wrong.

It is this dominating influence of personal feeling that makes him see the characters of other men not objectively, as they are in themselves, but subjectively, as they appear to him in the light of personal relationship. If a man sympathizes with him, agrees with him and supports him, such a man is a good and honorable citizen; but if, on the other hand, a man opposes him, or questions the wisdom or propriety of his actions, such man becomes an undesirable citizen with a more or less defective moral character. The Taft whom Mr. Roosevelt confidentially sketched for me in the early part of 1908, while he and Mr. Taft were still friends, differed widely from the "deceitful" and "hypocritical" Taft whom he saw in his mind's eye during the election campaign of 1912. The

eminent railroad president whom he always addressed, between 1901 and 1905, as "My dear Mr. Harriman"; whom he invited again and again to the White House as an honored guest; whom he said it was "a real pleasure to see"; and whom he desired to consult about his letter of acceptance, his message to Congress, and other "Government matters not connected with the campaign," became a totally different Harriman when the quarrel occurred in 1906, and when Mr. Roosevelt looked at his former friend through the distorting medium of a changed personal relation. This disposition to judge men narrowly by their relation to him, rather than broadly by the sum total of their activities, has long been a trait of Mr. Roosevelt's character, and it was notably shown in his attitude toward the struggle for honest government in Delaware, when a notorious political adventurer tried to get into the United States Senate by methods that all the best men of his own political party condemned and combated.

Bearing in mind this characteristic of Mr. Roosevelt, let us inquire whether, at the time of the Alton investigation, the President was, as a matter of fact, influencing the Interstate Commerce Commission, or taking a hand, personally, in its policies and activities.

In the recent trial of the New York & New Haven Railroad directors for alleged conspiracy to violate the provisions of the Sherman anti-trust law, Mr. Charles S. Mellen, former president of the road, testified that he went to Washington in 1907—the year of the Alton investigation—for the purpose of finding out whether, under the provisions of the Sherman law, his road would be allowed to keep its Long Island Sound steamers, or would be required by the Interstate Commerce Commission to sell them. He went first, not to the Commission, but to President Roosevelt. The latter sent for Commissioners Knapp and Prouty, and presumably consulted them; but he seems to have taken the final determination of the question into his own hands when he said to Mr. Mellen: "I cannot promise you any kind of protection if you break the law; but as far as I and my Administration are concerned, if you do not sell, you will have no trouble about those steamship lines." (New York *Times*, November 11, 1915.)

A little later, that same year, Mr. Mellen again went to President Roosevelt, to ascertain whether the Interstate Commerce Commission would interfere if the New York & New Haven Railroad Company should buy the Boston & Maine. Again the President seems to have

taken the decision of the question into his own hands by saying: "I would buy it if I were you." (Testimony of Mr. Mellen, New York *Times*, November 23, 1915.) Mr. Henry M. Whitney of Boston, who evidently thought that in railroad matters the President was more to be feared than the Interstate Commerce Commission, wrote to Mr. Mellen, on the 21st of May, 1907: "I have also thought it possible that the Little Father in Washington might like to get his finger in the pie [the purchase of the Boston & Maine] in which case, if it should happen before the public had become reconciled to the change, it might result in infinite harm to all your interests." (New York *Times*, November 23, 1915.)

It would thus appear that in two important cases at least, the President did have a "finger in the pie," and did influence or control, more or less effectively, the Interstate Commerce Commission. Is it wholly unreasonable or "monstrous," then, to suppose that, at or about the same time, he put his strong and capable finger into the "pie" of the Alton investigation, even if he did not make or bake it? I would not contend, for a moment, that Mr. Roosevelt inspired or encouraged the investigation of Mr. Harriman's long-past activities merely because he had had a quarrel with him. He did not look at the

matter from that point of view at all. As Mr. Taft in 1912 seemed to him an unworthy candidate for the Presidency, whom it was his duty to oppose, so Mr. Harriman, in 1908, seemed to him the leading exponent of a dangerous railroad policy, whom it was his duty to check. In each case, the quarrel first changed Mr. Roosevelt's view of the man, and then, in each case, the changed view resulted in antagonistic action, based on a sense of duty.

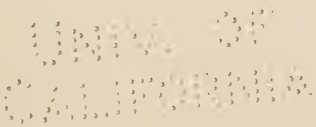
Mr. Roosevelt thinks it "monstrously iniquitous" to suppose that he would ask the Interstate Commerce Commission to proceed against a railroad president merely because he, Mr. Roosevelt, had had a personal disagreement with him. That is not at all my supposition. If he suggested, inspired, encouraged, or controlled the Alton investigation in any way, he did so with the firm and sincere belief that he was under a moral obligation to make an example of a man whom he had come to regard as a dangerous railroad speculator and monopolist. But he did not take anything like this view of the railroad president until after he had quarrelled with him, although all of Mr. Harriman's more important operations, including the reorganization of the Union Pacific, the Alton transaction, the purchase of control in the Southern Pacific,

the Northern Pacific "corner," and the Northern Securities merger, had been fully set forth in the newspapers, or litigated in the courts, and had been well known, not only to students, but to the general public for years. It cannot reasonably be supposed that the President, throughout the period of his friendly association with Mr. Harriman, was wholly ignorant of them; and yet neither he nor the Interstate Commerce Commission took action upon them until after the quarrel in 1906.

That the Interstate Commerce Commission, in 1907, was strongly influenced by President Roosevelt, there can hardly be a question. In March of that year, immediately after the Alton investigation, it was currently reported in New York that the Government intended to follow up the attack on the Harriman lines by making a "general raid" on other great railroad systems. So much was public confidence unsettled by these reports that, on the 11th of March, a delegation of New York men of affairs, headed by Mr. J. Pierpont Morgan, went to Washington to make inquiries. Apparently, however, they did not go to the Interstate Commerce Commission. They went directly to President Roosevelt. Upon laying the situation before him, they were given to understand that "no raid

was contemplated by the Commission; that nothing would be done in a spirit of resentment, or that would have a tendency to add to, or even continue, the existence of the prevailing public distrust." (*Commercial & Financial Chronicle*, March 16, 1907.)

From the fact, as stated in the *Chronicle*, that the Morgan delegation went directly to President Roosevelt, to ascertain the intentions of the Interstate Commerce Commission, it would seem to be a fair inference that, in the opinion of business men, the Commission was greatly influenced, if not largely controlled, by the President's views of public policy. Why Mr. Roosevelt decided that it would not be expedient to extend Alton-investigation methods to other railroad systems does not appear. Perhaps he thought that the object-lesson afforded by the attack on the Harriman lines would serve as a sufficient warning to other railroad managers, should they feel inclined, at any future time, to disregard the menace of the "big stick."



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